

REFERENCE TITLE: withholding tax rates; reduction

State of Arizona  
Senate  
Forty-seventh Legislature  
Second Regular Session  
2006

# **SB 1421**

Introduced by  
Senator Martin

AN ACT

AMENDING SECTION 43-401, ARIZONA REVISED STATUTES; RELATING TO WITHHOLDING TAX RATES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:  
2       Section 1. Section 43-401, Arizona Revised Statutes, is amended to  
3 read:

4                  43-401. Withholding tax: rates: election by employee

5       A. Except as provided by subsection B of this section, every employer  
6 at the time of the payment of wages, salary, bonus or other emolument to any  
7 employee whose compensation is for services performed within this state shall  
8 deduct and retain from the compensation an amount equal to a percentage,  
9 determined pursuant to subsection C of this section, of the total amount of  
10 the federal income tax deducted and withheld by an employer from the total  
11 value of such wages, bonus or other emolument of an employee under the  
12 provisions of the United States internal revenue code computed without  
13 deductions for any amount withheld.

14       B. An employer may voluntarily elect to not withhold tax during  
15 December by notifying:

- 16                  1. The department on a form prescribed by the department.
- 17                  2. The employer's employees in writing in a manner prescribed by the  
18 department.

19       C. The percentage deducted and retained under subsection A of this  
20 section shall be:

21                  1. If the employee's annual compensation is less than fifteen thousand  
22 dollars, ~~ten~~ 10.0 per cent, ~~nineteen~~ 18.2 per cent, ~~twenty-three~~ 21.3 per  
23 cent, ~~twenty-five~~ 23.3 per cent, ~~thirty-one~~ 29.4 per cent or ~~thirty-seven~~  
24 34.4 per cent, at the employee's election pursuant to subsection F of this  
25 section.

26                  2. If the employee's annual compensation is fifteen thousand dollars  
27 or more, ~~nineteen~~ 18.2 per cent, ~~twenty-three~~ 21.3 per cent, ~~twenty-five~~ 23.3  
28 per cent, ~~thirty-one~~ 29.4 per cent or ~~thirty-seven~~ 34.4 per cent, at the  
29 employee's election pursuant to subsection F of this section.

30                  3. Zero per cent at the election of an employee who had no state  
31 income tax liability in the prior taxable year and expects to have no state  
32 income tax liability for the current taxable year.

33       D. If the amount collected and payable by the employer to the  
34 department in each of the preceding four calendar quarters did not exceed an  
35 average of one thousand five hundred dollars, the amount collected shall be  
36 paid to the department on or before April 30, July 31, October 31 and January  
37 31 for the preceding calendar quarter. If such amount exceeded one thousand  
38 five hundred dollars in each of the preceding four calendar quarters, the  
39 employer shall pay to the department the amount the employer deducts and  
40 retains pursuant to this section at the same time as the employer is required  
41 to make deposits of federal tax pursuant to section 6302 of the internal  
42 revenue code. On or before April 30, July 31, October 31 and January 31 each  
43 year the employer shall reconcile the amounts payable during the preceding  
44 calendar quarter in a manner prescribed by the department. For taxable years  
45 or reporting periods that begin from and after December 31, 1997, the

1 department by rule may allow and determine which employers qualify for annual  
2 payments of withholding taxes, with an annual report by the employer pursuant  
3 to section 43-412, subsection B, if the qualifying employer has established  
4 sufficient payment history to indicate that the employer is current and in  
5 good standing pursuant to standards established by rule. For any business  
6 which has not had a withholding certificate for the four preceding  
7 consecutive quarters, the quarterly average shall be computed in a manner  
8 prescribed by the department.

9 E. If an employer fails to make a timely monthly payment because prior  
10 to that reporting period it reported on a quarterly basis instead of on a  
11 monthly basis, the department shall notify the employer that it is out of  
12 compliance with this section. Notwithstanding section 42-1125, the  
13 department shall not assess a penalty against an employer for failing to make  
14 a timely monthly payment if the employer had filed and remitted all taxes due  
15 on a quarterly basis and brings all filings and payments into current  
16 compliance within thirty days after being notified by the department.

17 F. Each employee shall elect the amount authorized by subsection C of  
18 this section to be withheld for application toward the employee's state  
19 income tax liability. The election provided under this subsection shall be  
20 exercised by each employee, in writing on a form prescribed by the  
21 department. The election shall be made within five days of employment. Each  
22 employer shall notify the employees of the election made available under this  
23 subsection and shall have election forms available at all times. Each form  
24 shall be completed in triplicate, with one copy each for the department, the  
25 employer and the employee. The employer shall file a copy of each completed  
26 form with the department. Any employee failing to complete an election form  
27 as prescribed shall be deemed to have elected the smallest applicable  
28 withholding percentage.

29 G. Before October 1, 2005 and before July 1 each year thereafter, each  
30 employer who chooses to not withhold tax pursuant to subsection B of this  
31 section shall notify each employee that:

32 1. State income taxes will not be withheld from compensation in  
33 December.

34 2. The employee may elect to change the rate of withholding tax  
35 prescribed by this section to compensate for the resulting change in annual  
36 withholdings from the employee's compensation.

37 Sec. 2. Changes to existing withholding tax rates

38 A. Unless an employee elects to change the rate of withholding tax  
39 prescribed by section 43-401, Arizona Revised Statutes, as amended by this  
40 act, if an employee's rate of withholding immediately before the effective  
41 date of this act was:

42 1. Nineteen per cent, the withholding tax rate shall be decreased to  
43 18.2 per cent.

44 2. Twenty-three per cent, the withholding tax rate shall be decreased  
45 to 21.3 per cent.

1       3. Twenty-five per cent, the withholding tax rate shall be decreased  
2 to 23.3 per cent.

3       4. Thirty-one per cent, the withholding tax rate shall be decreased to  
4 29.4 per cent.

5       5. Thirty-seven per cent, the withholding tax rate shall be decreased  
6 to 34.4 per cent.

7       B. This section shall not be construed to preclude an employee from  
8 electing any rate of withholding pursuant to section 43-401, Arizona Revised  
9 Statutes, as amended by this act.

10      Sec. 3. Effective date

11      This act is effective from and after December 31, 2006.